

INTERNATIONAL SHOE CO.

1501 Washington Avenue

St. Louis, Mo.

FINANCIAL STATEMENT

November 30, 1940

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INTERNATIONAL SHOE Co.

1509 Washington Avenue

St. Louis, Mo.

FINANCIAL STATEMENT

November 30, 1940

December 31, 1940

TO OUR STOCKHOLDERS:

Financial report showing the results of the International Shoe Company's operation for the fiscal year ended November 30, 1940, is submitted herewith.

Net sales to customers were \$89,257,329.57 compared with \$89,325,446.87 last year. Exclusive of canvas rubber soled shoes our factories produced 45,426,619 pairs of shoes, against 49,267,631 last year.

Subsidiary plants (sole leather and upper leather tanneries, textile mill, factories making all leather counters, heels and soles, rubber heels and soles, welting, box toes, cartons, containers, chemicals, cements, etc.), produced during 1940 shoe materials and shoe supplies amounting to \$43,962,395.47, which, combined with our sales, made an aggregate of \$133,219,725.04 business transacted.

Net earnings, after taxes, for the year were \$6,473,611.51 which represents an earning of \$1.93 a share on the Common Stock. This compares with \$6,588,209.30 or \$1.97 a share last year.

The Company's current assets of \$65,895,464.25 are 13 times its current liabilities of \$4,819,574.69, which include a reserve for income taxes of \$1,835,000.00.

Throughout the larger part of our fiscal year retail shoe sales declined in volume. This resulted in a decreased production of approximately 7% for the entire shoe industry of the United States; and our Company's production was in line with that of the Nation.

For several months, the Company has been subjected to attacks through newspaper articles referring to Army shoe contracts and alleged labor law violations. By unanimous decision, on December 10, 1940, the United States Court of Appeals completely vindicated the Company in the case resulting from National Labor Relations Board charges filed against the Company in Hannibal, Missouri, in the Spring of 1938. There have been no other Labor Board cases brought against the Company. The Company was successful in securing contracts for substantial quantities of Army, Navy and CCC shoes during the year; a number of these contracts being awarded after these articles began to appear.

This Government business served to offset the general decline in regular business, and enabled the Company to show net sales for the year of substantially the same amount as in the previous year.

Under the Wage and Hour Act, the forty-hour week became effective in October 1940, and for the Shoe Industry a minimum wage of 35 cents per hour was made effective in April. The application of these standards had little, if any, effect on the Company's operations as they differed but slightly from the Company's own previous standards.

The Company paid one week's extra pay to its factory, warehouse and office employees on December 20, 1940.

In August 1940, the Company suffered the largest fire loss in its history; its sole leather tannery at North Wilkesboro, North Carolina, being almost totally destroyed. Immediately after a disastrous flood had wrecked all of the usual fire protection facilities, a fire with its heavy toll followed and was beyond control of anyone. The fire loss was completely covered by insurance. A modern sole leather tannery located at Marlinton, West Virginia, has been purchased to replace the lost tanning capacity.

At reasonable prices and with no semblance of profiteering, the Company is pleased to supply large quantities of shoes needed by the National Defense Program. This helps to keep our people employed and gives to the Company an opportunity to render a patriotic service to our Government.

The Company is fortunate in having no foreign investments, branches or connections.

The immediate prospects for active business are good. We are confident of increased sales in the first half of 1941 and perhaps through the entire year; but the uncertainties covering an extended period are obvious. In these circumstances, the Company is undertaking to meet changing conditions with thoughtful deliberation based on experience—that is, without undue conservatism or unbridled optimism.

The Company's strong financial position, together with the fine spirit of loyalty and co-operation throughout the organization, enable us to face the coming year with confidence in its outcome.

It is our hope and belief that 1941 will be another year of success—added to the many that have been recorded in the Company's history.

Respectfully submitted,

INTERNATIONAL SHOE COMPANY

Frank C. Rand
Chairman of the Board.

Byron A. Gray
President.

INTERNATIONAL

CONSOLIDATED

As at Nov

ASSETS

CURRENT ASSETS:

| | | |
|--|----|----------------------|
| Cash in Banks and on Hand..... | \$ | 24,499,290.18 |
| Accounts Receivable: | | |
| Customers, less Reserve for Cash Dis- | | |
| counts and Doubtful Accounts..... | \$ | 15,039,000.80 |
| Salesmen's Traveling Advances and | | |
| Sundry Accounts..... | | 87,892.02 |
| | | <u>15,126,892.82</u> |
| Inventories: | | |
| At lower of Cost or Market: | | |
| Manufactured Merchandise..... | | 8,647,661.08 |
| Merchandise in Process and Supplies.. | | 7,275,031.22 |
| At Cost—Raw Materials (Hides and | | |
| Leather)..... | | 10,346,588.95 |
| | | <u>26,269,281.25</u> |
| TOTAL CURRENT ASSETS..... | | 65,895,464.25 |
| Expenses Paid in Advance—Insurance Premiums, Taxes, and | | |
| other Deferred Charges to Operations..... | | 448,470.86 |
| Employees Notes Receivable (Under Installment Plans for | | |
| purchase of Common Stock) secured by 3,900 shares of | | |
| Common Stock..... | | 77,066.16 |
| Company's Own Common Stock—7,500 shares at Net Cost | | |
| (At Quoted Market Prices \$221,250.00)..... | | 193,421.91 |
| Advances to (\$1,000,000.00) and Investment in Associated | | |
| Companies..... | | 1,052,555.00 |
| Investment in Stocks of other Companies, Etc. (less Reserve).... | | 244,628.39 |
| Physical Properties at Tanneries, Shoe Factories, Supply De- | | |
| partments, and Sales Branches (Based on Appraisal as of | | |
| April 30, 1925, plus subsequent Additions at Cost): | | |
| Land and Water Rights..... | \$ | 2,031,757.13 |
| Buildings and Structures..... | | 22,239,638.59 |
| Machinery and Equipment..... | | 18,083,334.60 |
| Lasts, Patterns, and Dies..... | | 1.00 |
| TOTAL..... | | <u>42,354,731.32</u> |
| Less—Reserve for Depreciation..... | | <u>25,583,119.03</u> |
| Net Depreciated Value of Physical Properties.... | | 16,771,612.29 |
| TOTAL..... | \$ | <u>84,683,218.86</u> |

SHOE COMPANY

BALANCE SHEET

ber 30, 1940

LIABILITIES

CURRENT LIABILITIES:

| | |
|---|-----------------|
| Accounts Payable for Merchandise, Expenses, and Payrolls..... | \$ 2,842,638.62 |
| Officers, Stockholders, and Employees Balances..... | 141,936.07 |
| Reserve for Federal Income Taxes..... | 1,835,000.00 |
| TOTAL CURRENT LIABILITIES..... | 4,819,574.69 |

| | |
|---|------------|
| Reserve for Contingencies and decline in market value of Raw Materials..... | 550,000.00 |
|---|------------|

| | |
|-------------------------|------------|
| Insurance Reserves..... | 752,839.51 |
|-------------------------|------------|

CAPITAL STOCK:

| | |
|---|---------|
| Preferred Stock 6% Cumulative—Authorized 250,000 shares of \$100.00 each—Outstanding..... | \$ None |
|---|---------|

| | |
|---|---------------|
| Common Stock — Authorized 4,000,000 shares without Nominal or Par Value, whereof Issued and Outstanding — 3,350,000 shares..... | 50,250,000.00 |
|---|---------------|

| | |
|---------------------|---------------|
| Earned Surplus..... | 28,310,804.66 |
|---------------------|---------------|

(Of the Earned Surplus, \$193,421.91 used for the purchase of Company's Own Common Stock as per Contra)

| | |
|--------------------------------|------------------|
| TOTAL CAPITAL AND SURPLUS..... | \$ 78,560,804.66 |
|--------------------------------|------------------|

| | |
|------------|------------------|
| TOTAL..... | \$ 84,683,218.86 |
|------------|------------------|

INTERNATIONAL SHOE COMPANY

CONSOLIDATED INCOME ACCOUNT

For the year ended November 30, 1940

| | | |
|--|------------------|---------------|
| Net Sales of Shoes and Other Manufactured Merchandise | \$ 89,257,329.57 | |
| Cost of Shoes and Merchandise Sold, after charging Operating Expenses, Maintenance of Physical Properties, Selling, Administrative, and Warehouse Expenses, and Credit Losses, less Discount on Purchases..... | \$ 79,711,487.35 | |
| Depreciation of Physical Properties..... | 1,523,540.26 | 81,235,027.61 |
| NET OPERATING PROFIT..... | | 8,022,301.96 |
| Miscellaneous Income..... | | 99,815.39 |
| NET EARNINGS..... | | 8,122,117.35 |
| Provision for Income Taxes..... | | 1,648,505.84 |
| NET INCOME FOR YEAR..... | \$ | 6,473,611.51 |

COMMON STOCK CAPITAL AND CONSOLIDATED SURPLUS ACCOUNT

| | | |
|---|------------------|------------------|
| Common Stock Capital and Surplus, as at November 30, 1939: | | |
| Common Stock Capital (Outstanding 3,350,000 shares)..... | \$ 50,250,000.00 | |
| Earned Surplus..... | | 27,687,168.15 |
| | | 77,937,168.15 |
| Net Income, for the year ended November 30, 1940..... | | 6,473,611.51 |
| | | 84,410,779.66 |
| Dividends: | | |
| Common Stock, \$1.75 per share..... | \$ 5,862,500.00 | |
| Less—Dividends on Company's Own Common Stock..... | 12,525.00 | 5,849,975.00 |
| Common Stock Capital and Surplus, as at November 30, 1940.... | | 78,560,804.66 |
| Divided as follows: | | |
| Common Stock Capital (Outstanding 3,350,000 shares)..... | 50,250,000.00 | |
| Earned Surplus..... | 28,310,804.66 | \$ 78,560,804.66 |

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERNATIONAL SHOE COMPANY,
St. Louis, Missouri.

We have examined the Consolidated Balance Sheet of the International Shoe Company and Subsidiary Companies as at November 30, 1940 and the statement of Consolidated Income and Surplus for the year ended on that date, have reviewed the system of internal control and the accounting procedures of the Companies, and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate.

Under the customary terms of the rental and royalty agreements covering machinery leased by the International Shoe Company, it is liable to the lessor for deferred license fees which are payable when such machinery is returned to the lessor together with all return freight and repair charges. It is the consistent accounting procedure of the corporation to charge as operating expenses all current rentals and royalties.

The International Shoe Company has under protest a deficiency in income taxes for a prior year; the contingency with respect to which is substantially provided for in the accounts.

In our opinion, the accompanying Consolidated Balance Sheet and related statement of Consolidated Income and Surplus present fairly the consolidated position of the International Shoe Company and Subsidiaries at November 30, 1940 and the result of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & Co.

St. Louis, Missouri, December 24, 1940.

OFFICERS

| | |
|-------------------------|------------------------------|
| FRANK C. RAND . . . | Chairman of the Board |
| JAMES T. PETTUS . . . | Vice-Chairman of the Board |
| BYRON A. GRAY . . . | President |
| ANDREW W. JOHNSON . . | Vice-President and Treasurer |
| PAUL B. JAMISON . . . | Vice-President |
| OLIVER F. PETERS . . . | Vice-President |
| H. EDGAR JENKINS . . . | Vice-President |
| ARTHUR B. FLETCHER . . | Vice-President |
| DICKSON S. STAUFFER . . | Vice-President |
| WILLIAM N. SITTON . . . | Assistant Treasurer |
| ROBERT O. MONNIG. . . | Comptroller and Asst. Sec'y |
| CARL E. BRUECKMANN . . | Secretary |

DIRECTORS

| | |
|---------------------|---------------------|
| ROBERT E. BLAKE | J. LEE JOHNSON |
| SAMUEL BOWN | ROBERT L. JORDAN |
| CLARENCE H. FIELDER | ROBERT O. MONNIG |
| ARTHUR B. FLETCHER | WILLIAM H. MOULTON |
| BYRON A. GRAY | OLIVER F. PETERS |
| H. ROY GREEN | JAMES T. PETTUS |
| EDWARD J. HOPKINS | JAMES E. QUINN |
| FRED HUME | EDGAR E. RAND |
| LEWIS B. JACKSON | FRANK C. RAND |
| PAUL B. JAMISON | JOSEPH O. RAND |
| ALBERT H. JENKINS | WILLIAM N. SITTON |
| H. EDGAR JENKINS | DICKSON S. STAUFFER |
| ANDREW W. JOHNSON | |

TRANSFER AGENTS

MANUFACTURERS TRUST CO., NEW YORK, N. Y.
MISSISSIPPI VALLEY TRUST CO., ST. LOUIS, MO.

REGISTRARS

GUARANTY TRUST CO., NEW YORK, N. Y.
ST. LOUIS UNION TRUST CO., ST. LOUIS, MO.

SALES BRANCHES

ST. LOUIS

Roberts, Johnson & Rand
Peters
Friedman-Shelby
Continental Shoemakers
Pennant Shoe Co.
Jefferson Shoe Co.
Vitality Shoe Co.
Queen Quality Shoe Co.
Dorothy Dodd Shoe Co.
Winthrop Shoe Co.
Conformal Footwear Co.

NEW YORK

Morse & Rogers

BOSTON

Hutchinson-Winch

MANCHESTER, N. H.

Great Northern Shoe Co.
Interstate Shoe Co.

SHOE FACTORIES AND SUBSIDIARY PLANTS

MISSOURI

St. Louis
Hickory St. & Mississippi Ave.
Broadway, Cherokee St. & Lemp Ave.
St. Louis & Jefferson Aves.
Thirteenth & Mullanphy Sts.
Jefferson Ave. & Madison St.
Bland
Cape Girardeau
De Soto
Fulton
Hannibal
Seventh & Collier Sts.
S. W. Cor. Maple Ave. & Collier St.
S. E. Cor. Maple Ave. & Collier St.
Hermann
Higginsville
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Kiefner and Edgemont Sts.
Magnolia St.
St. Charles
St. Clair
Sikeston
Sullivan
Sweet Springs
Washington
Windsor

ILLINOIS

Anna
Belleville
Chester
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

NEW HAMPSHIRE

Claremont
Manchester
Nashua
Newport

KENTUCKY

Paducah

ARKANSAS

Malvern

TANNERIES

ILLINOIS

South Wood River

MISSOURI

St. Louis
Thirteenth & Mullanphy Sts.

NEW HAMPSHIRE

Manchester
Merrimack

NORTH CAROLINA

Morganton
North Wilkesboro
(Extract Plant)

PENNSYLVANIA

Philadelphia

WEST VIRGINIA

Marlinton

